ANCILLARY REVENUE REPORT SERIES FOR 2012

Shocking News: A la Carte Shopping is Good for Consumers

The ultimate compliment for the consumer acknowledges their right to choose.

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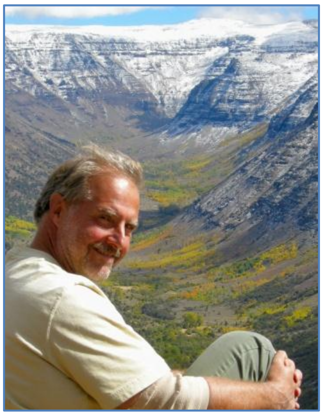
About Jay Sorensen, Writer of the Report

Jay Sorensen's research and reports have made him a leading authority on frequent flier programs and the ancillary revenue movement. For 2012 he will be a speaker at the FFP Spring Event at the Freddie Awards in New York, the IATA Passenger Services Symposium in the Middle East, and the MEGA Ancillary Revenue and FFP Event in San Diego. His published works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

Jay, with sons Aleksei and Anton, on the top of Brokeoff Mountain in Lassen Volcanic National Park in northern California.

Mr. Sorensen is a veteran management professional with 27 years experience in product, partnership, and marketing development. As president of the IdeaWorks consulting firm, he has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start airlines and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for marketing, sales, customer service, product development, operations, planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

About Eric Lucas, Editor of the Report



Eric, at his favorite summer retreat, Steens Mountain, Oregon.

Eric Lucas is an international travel, natural history and business writer and editor whose work appears in MSN/Bing Travel, Michelin travel guides, *Alaska Airlines Magazine, Westways Magazine* and numerous other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of six books, including the 2009 Michelin *British Columbia Green Guide*. Eric has followed and written about the travel industry for more than 20 years. He lives in Seattle, Washington, where he grows and sells organic garlic; visit him online at www.TrailNot4Sissies.com.

Airline Ancillary Services

Maximise profit with an end-to-end multichannel solution

Love it or hate it, it seems that unbundling is here to stay. Whilst it is clear that unbundling is of major benefit to many airlines today, in this report by IdeaWorks you will read well researched and argued justifications as to why unbundling is actually in the best interests of customers as well. Unbundling is not inherently evil, but there are a number of other issues that in our opinion also need to be considered to ensure customers are best served.

So what is Amadeus' view?

Amadeus believes that ancillary services, like preferred seating can be an important source of revenue and differentiation for airlines, and choice for consumers. Indeed, we support airlines with the technology to sell ancillary services on their websites, in their own ticket offices and through travel agencies.

However, the practice of unbundling, undoubtedly also makes the process of selecting a flight more complex for consumers and raises the question of transparency. This question is currently being examined by regulators in both the US and Europe and on this page we outline Amadeus' own view.

Amadeus favours a clarification of regulation on price transparency to ensure that consumers/travel buyers can compare offers on an apples-to-apples basis in the indirect distribution channels airlines choose to use.

The practice of unbundling, if done incorrectly, can make it difficult for consumers and corporates to know the final price of travel or to compare competing offers in the market,

> Core service fees must be identified to the travel buyer.

We believe that the core service fees must be identified to the travel buyer, so that an "apples-to-apples" comparison of alternative offers is possible across all distribution channels where the airline chooses to be present.

We believe this should include fees for payment, seat selection, check-in, and baggage, to name a few.

We also believe it is critical that consumers should be able to book or purchase these services with their flight, so they are not forced to visit another website to find out if they can actually sit together with their children when taking the family trip. It is one thing to be aware that an extra charge may exist. It is quite another to be able to act on that knowledge.

There is, of course, another reason for this kind of price transparency: it makes business sense to make it easier for customers to buy services you want to sell. Or, as former AMR CEO Robert Crandall put it in an interview with Bloomberg, to "avoid unnecessarily irritating customers".

**> We hope you enjoy this report by IdeaWorks.
For more information on Amadeus Airline Ancillary Services, please visit us at amadeus.com/airlines**

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Shocking News: A la Carte Shopping is Good for Consumers

The ultimate compliment for the consumer acknowledges their right to choose.

Consumers, politicians, and members of the media often attribute to airline management the characteristics of Dr. Evil from the Austin Powers spy comedies. Namely, that both are guilty of concocting elaborate plans for world domination. While airline executives may dream of a world of unlimited profits and ever-increasing fares, the opposite has been true. Travel remains one of the great consumer bargains, as the price of air travel hasn't kept pace with other consumer goods and services.

Dr. Evil – and most airlines – bumbled when attempting to describe their methods to a global audience.

Even after adding fees for checked bags and food, the amount collected often doesn't exceed the cost of operating an airline. This is an industry in which investors routinely place a sizeable portion of their money in the pockets of customers. These are hardly the hallmarks of a global cabal, but rather a marketplace in which consumers are weirdly subsidized by companies providing service.

The level of vitriol heaped upon airlines for the introduction of a la carte methods – such as bag fees – is equally unfair. Consumer ire is certainly deserved when airlines are less than forthcoming with information about their fees. IdeaWorks offers a troika of reasons why a la carte shopping is good for consumers:

- **Let's be fair, many airlines need the money.** Financially healthy airlines provide better service, operate newer aircraft, and have more staying power.
- **Consumers can tailor their travel.** While many travelers may mourn the passing of the proverbial free lunch, consumers are better served when they are free to pick and purchase services based upon individual preference.
- **Fee-based services are often better than free.** A magical thing occurs when a service is no longer a gift, but becomes something that earns money . . . companies provide better service.

Advertising for the now defunct People Express Airlines said it best in 1981, "You pay only for baggage you want to check, drinks you want to drink, and the snacks you want to snack." It's difficult to argue with that logic, because it places the consumer in the driver's seat . . . or in the case of Dr. Evil, on a joystick-controlled oversized chair.

Airlines worldwide have lost $36.7 billion in the last 10 years

That's a stupendous amount of money. From 2000 to 2010, the world's passenger and cargo airlines incurred net losses of $36.7 billion on revenue of $4.3 trillion.[1] Annual margins ranged from -4.6 percent to 2.9 percent. With too few exceptions, the airline industry has not been a spectacular place to invest money. Capital outflows of this magnitude can't continue unless airlines begin to make meaningful money. In the absence of reliable profits, capital will naturally flow to other industries. As a result, the number of airlines will shrink and the choices offered to consumers will dwindle. The root of the problem is the inability of air fares to keep pace with dramatically increasing costs . . . which of course include the always menacing price of jet fuel.

The average operating cost associated with a roundtrip passenger on a US airline was $523.98 during 2010.[2] These statistics include domestic and international travelers. The average fare during the same period was $422.50; this covered about 80 percent of a carrier's operating cost. Adding the average amount collected from baggage fees boosted revenue by only $13.42, which leaves an operating loss per passenger in excess of $88. Revenue from other airline sources, to include cargo operations, added enough to provide a profit of around $38 . . . but this yields a margin of scant interest to savvy investors. As a result of these economics, all US airlines (with the exception of Southwest) scored "below investment grade" ratings from Standard and Poors.[3]

Fares like this keep Europe's consumers happy and keep its airline industry in upheaval.

Europe's airlines, which have witnessed economic turmoil, also delivered overall bargains for air travelers. The price index of "passenger transport by air" has advanced a timid 5.6 percent for the period of November 2005 through November 2011.[4] The accompanying consumer price index for the euro area increased by a more robust 13.2 percent for the same period. Here again, air fares have simply failed to keep pace with overall consumer price increases. IdeaWorks notes Europe's air fare data is collected by individual countries and parameters will vary. For example, the UK air fare data includes domestic, short haul, long haul destinations and one piece of checked baggage. The data was collected via the website of the European Central Bank and is based upon statistics published by the European Commission.

Everyone likely realizes the good times of cheap fares are coming to an end. Bankruptcies have become non-events due to increased frequency. Airline employees at imperiled carriers are disenfranchised. Aircraft interiors are frequently threadbare with flat seat cushions and worn carpet. With rare exceptions, carriers are running on fumes and in dire need of fresh capital and a good long run of profits. A la carte fees represent the industry's most recent attempt to bring sanity to the bottom line in a marketplace heavily influenced by the pricing methods of low cost carriers.

[1] Annual Results for the World's Airlines (includes cargo operators), A4A.org website reviewed January 2012.
[2] "Industry Review and Outlook" dated 12 January 2012 at A4A.org website.
[3] "Industry Review and Outlook" dated 12 January 2012 at A4A.org website.
[4] Harmonised indices of consumer prices; breakdown mainly used by the ECB, European Central Bank.

The switch to a la carte methods in the US – which includes the addition of bag fees – has helped the airline industry, but has not increased overall prices to the consumer. The average price of domestic US travel in 2000 was $316.88 (including minor fees).[5] Eleven years later, this increased by a mere 6.7 percent to $337.97 mostly due to new bag fees. By comparison, the US consumer price index increased by a far more robust 26.6 percent during the same period. American voters should note taxes associated with domestic travel increased by a crushing 36.5 percent from 2000 to 2010, making the US Congress a far more effective cartel than the US airline industry. Contrary to popular belief, fares do come down when fuel prices decrease as occurred during 2009. The US domestic average air fare dropped by nearly 10 percent as ever-present competition forced airlines to give up previous gains.

Comparison of Average US Domestic Air Fares + Fees		
	Year 2000	**Year 2010**
Average Air Fare	$314.38	$316.31
Fees (Bags and Reservations)	$2.40	$21.66
Total Air Fare and Fees	$316.88	$337.97
Source: "Industry Review and Outlook" dated 5 January 2012 at A4A.org website.		

The world's airline industry simply can't increase fares quickly enough to account for runaway fuel bills. For the 2000 through 2010 period, US average air fares increased less than one percent. Airlines attempt to recover some of the losses from fuel surcharges and of course, through a growing list of a la carte fees. Price conscious consumers can take advantage of this quirk of today's airline economics by choosing the services they desire and opting out of those deemed unnecessary.

Customers pay for conveniences they value

The era of fine dining on US airlines began its slow decline in 1978 when the US airline industry became deregulated. Prior to that, airlines vigorously used food as a competitive tool. A review of online traveler postings reveals the original Frontier Airlines provided steak and lobster meals on flights tailored for the petroleum industry between Denver and Dallas. A quick one-hour flight on Ozark (long defunct) between St. Louis and Chicago included a sandwich plate, apple, potato chips, and a cookie. Even Aer Lingus, now a low cost carrier, once routinely delivered a full hot breakfast to every passenger on its oh-so-short Dublin – London morning services.

Deregulation in the US and subsequent liberalization of transatlantic and intra-Europe markets slowly changed the focus of competition from amenities and service to bare bones pricing. When offered, food service was treated as a gift given by an airline to passengers. US airlines did everything they could to reduce the cost of this "gift." By 2003 they were spending a paltry average of $2.13 per passenger for drinks and food on a domestic flight.[6] The table on the following page provides a chronology of airline food as one of the first amenities converted to a la carte methods.

[5] "Industry Review and Outlook" dated 5 January 2012 at A4A.org website.
[6] Review of DOT Form 41 airline disclosures of food and beverage expense for domestic flights.

Change from Fine Dining to Buy-on-Board in the US		
1936 – 1978	**The Era of Fine Dining.** United says it established the first kitchen to produce airline meals in 1936.[7] Airline pricing was regulated during this period, so airlines competed by offering full meals in a style reminiscent of a railway dining car. There was no free lunch, as regulators allowed airlines to file fares based upon the cost of delivering service . . . to include the meal eagerly eyed by the lad to the right.	
1978 – 2001	**Food Becomes a Frill.** The airline deregulation act of 1978 forever changed the competitive environment of the airline industry in the US and eventually the world. Fares – not service – became the primary competitive tool. Food was deemed a frill and subjected to endless cost cutting after1992.[8] Quality and quantity shrank and the topic of airline food became fodder for comedians.	
2001– 2002	**Food Disappears.** It's true. Meal service largely disappeared on US domestic flights as carriers quickly shed costs in the aftermath of the 9/11 terrorist attacks.[9] Airlines offered peanuts, pretzels, and soft drinks to economy class travelers. Travelers were advised to buy before boarding. Airport retailers were delighted and happily sold sandwiches to go.	
2003 – today	**Buy-On-Board is an Option.** Delta, United, and US Airways introduced a la carte food options during 2003.[10] Early choices ranged from bagged food sold at the gate, non-perishable snack boxes, bagged sandwiches, and freshly prepared salads. Entree sophistication, quality, presentation, and selection continue to improve as airlines become better retailers. American introduced food for sale in 2005.[11] Pictured at right is its buy-on-board California Cobb sandwich and Boulder Canyon Chips it is testing as a pre-order item on select flights for AAdvantage program members.	

[7] "Soaring Through History" information at United.com reviewed January 2012.
[8] Review of DOT Form 41 airline disclosures of food and beverage expense for domestic flights.
[9] "Travel Advisory; Airlines Cutting Back On Food Service" article in the New York Times, 30 September 2001.
[10] "Food for thought: Airlines try tastier tactics" article in the Chicago Tribune, 13 July 2003.
[11] Cashless Cabin page viewed at the AA.com website January 2012.

It's obvious the image of a tray full of food served by the perky TWA flight attendant is as much a relic of a bygone era as the airline itself. Airlines came to the realization food was no longer an amenity that could attract economy class customers. Low fares prevailed as the ultimate marketing hook with customers flocking to the lowest fare with an almost mocking disregard for the amenity of food. The exception to this became premium cabins, such as business and first class, in which service and amenities are considered important amenities by business travelers . . . many of whom are traveling on company-paid itineraries.

Norwegian, a rapidly growing European low cost carrier, offers an onboard menu of nearly 50 items.

A funny thing happens when you ask a consumer to open their wallet – they often hesitate. Whereas a meal was once catered for everyone on board, airlines report this statistic plummets on flights operating a buy-on-board service. The 2010 Zagat US & International Airlines Survey revealed only 7 percent of passengers would pay for food if a free meal wasn't provided. One can easily imagine the vast number of passengers throughout the history of the airline industry who only ate because free food was placed in front of them . . . not because they actually needed to eat. If nothing else, the reduced level of feeding should help reduce passenger waistlines.

A la carte methods have replaced free with fee. IdeaWorks argues this is a positive development for travelers. Why be limited by a paltry pantry consisting of a complimentary sandwich victimized by years of cost-cutting? Analysis conducted by IdeaWorks during 2010 revealed Ryanair offered more than 70 buy-on-board items and easyJet's menu boasted 80+ items. Today's consumers are learning to rely upon a carrier's desire to sell items for a profit, rather than to depend upon a diminished menu of free edibles. IdeaWorks analysis reveals a wide range of purchase behavior, with 15 to 40 percent opting to buy food or drinks on a flight.

The consumer's hesitation to spend money doesn't stop with food. When faced with a fee for checked baggage, travelers are also finding alternatives. According to a US government study, when asked to pay fees, travelers checked 40 to 50 percent fewer bags on some carriers. [12] Doug Parker, CEO of US Airways, noted that passengers checked 25 percent fewer bags overall when fees were implemented during 2008.[13] Once again, as with food, consumers are far more prudent when a price tag is attached to a service. Economy class passengers are choosing to travel with fewer frills, allowing airlines to operate more efficiently, and generating cost savings for battered income statements.

Food and checked bags are services that have been unbundled. This is an airline industry phrase describing items that were once included in the price of a ticket. A la carte also includes a menu of services tied to new conveniences. Here the power of choice can smooth the travel experience for consumers and add attractive revenue to a carrier's bottom line.

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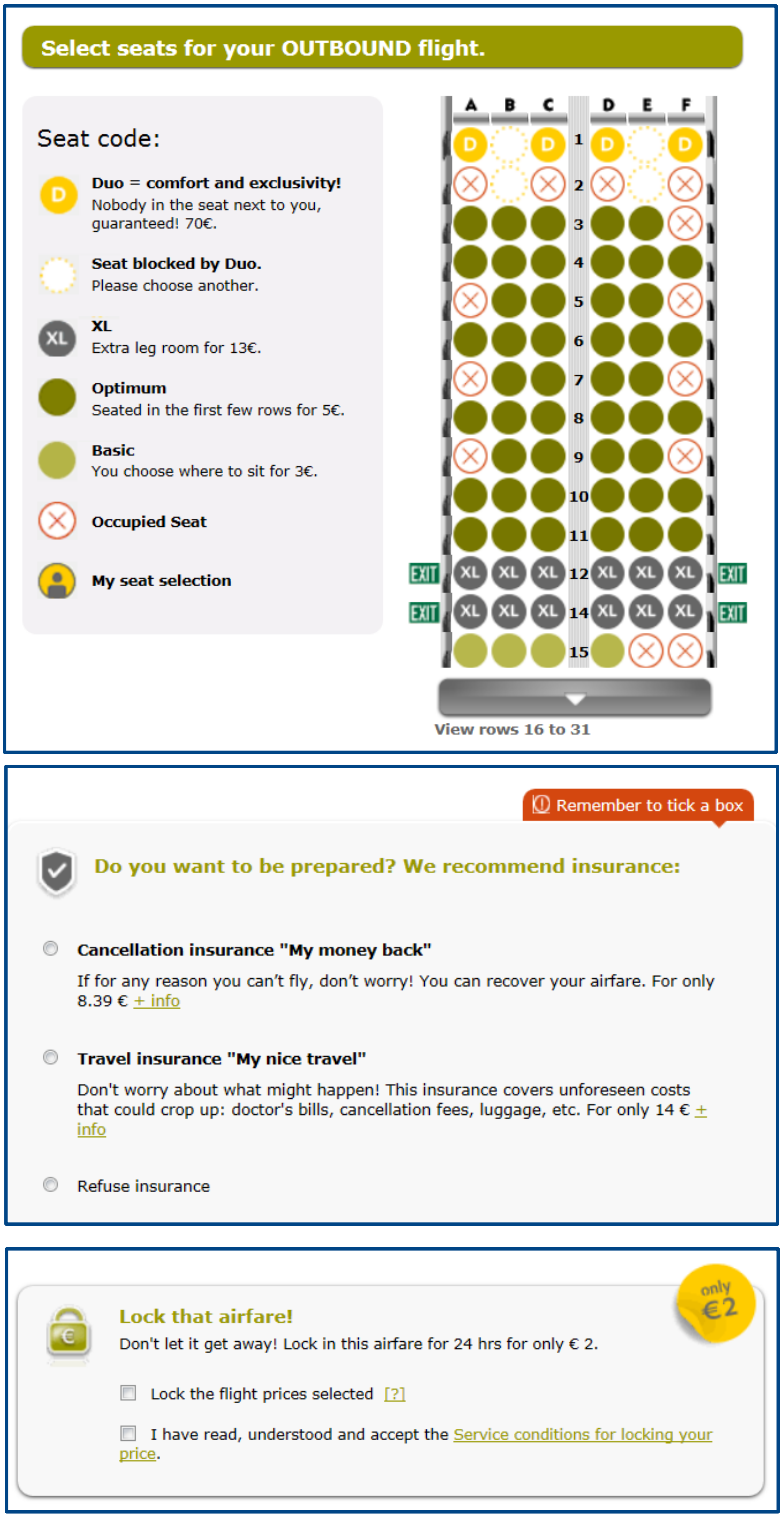
[12] US Government Accountability Office, "Commercial Aviation: Consumers Could Benefit from Better Information about Airline-Imposed Fees" dated 14 July 2010 reviewed at www.gao.gov.
[13] US Airways Group, Inc. Q3 2008 Earnings Call dated October 23, 2008.

Displayed to the right are the options offered by Vueling Airlines, which is a European low cost carrier based in Spain. Services sold during the booking process are called "in-path" and this method provides the optimum level of sales activity. Popular choices in this category are seat assignments and insurance. Seat fees may vary by the attractiveness of location and space between seats. Vueling, through its "Duo" feature, has taken the novel approach of allowing passengers to sit in the front rows with a blocked middle seat.

Options offered during booking at Vueling.com



Vueling also sells travel insurance and allows unsure consumers to pay a small fee to hold a reservation for 24 hours. Other services sold by airlines include special privileges at the airport such as priority check-in and security screening, and early boarding. Choosing to receive an itinerary and flight updates via a mobile device often incurs a minor one or two euro fee.

So called "punitive fees" seek to modify consumer behavior. Arriving at the airport without printing a boarding pass in advance will cost a Ryanair passenger a whopping €60. However, the airline rarely collects the fee because consumers have learned to always print their boarding pass before leaving from home. The airline says this has reduced the cost of airport operations and the savings have been passed to the consumer. More airlines are trying to recover the expense associated with processing credit card payments by charging flat fees or a small percentage surcharge.

There are also fees of dubious distinction that give the ancillary revenue movement a black eye. The European Commission wisely prohibits "opt out" pricing (EC regulation 1008/2008).[14] This method presents a pre-checked purchase box during the booking process. Unless the consumer actively deletes the selection, the item is added to the final tally. Surprisingly, this method is still allowed in other areas of the world. Some airlines choose to add low value items, such as airport transfers, to the shopping cart of every shopper. Many consumers are not aware of the purchase or once they discover it, don't take the time to request a refund. Fortunately for US consumers, the practice is now prohibited by the DOT's new Full Fare Advertising rule (effective 24 January 2012).

IdeaWorks recommends a full disclosure approach to selling. The consumer should have abundant information on the services and products presented and an easy to understand tally of all purchases. Regulators sometimes forget how the process of selling travel has changed since the arrival of the internet. Gone forever are the days when a single price described the all-inclusive fare between two cities. Consumers now begin the booking experience with a shopping cart into which they add services and products to the base product of an airline seat. To burden the industry with requirements for the airfare to include all ancillary services, would be similar to requiring a resort to specify that room rates include dining, drinks, and golf . . . a clear absurdity. But requiring airlines to publish their ancillary services in a transparent manner honors the consumer's ability to choose.

Profit-based services deliver higher quality for consumers

Savvy consumers all over the world know gratuities deliver better service. Giving a tip to a head waiter ensures a better table with a view. Likewise, spending money instead of relying upon a favor gets the job done more promptly and professionally. For example, paying for a repair at a legitimate repair shop will usually deliver better results than relying upon a free favor from your brother-in-law. It shouldn't be surprising the same logic works in the corporate world. Linking revenue to a service makes it a transaction with defined value.

Airlines are composed of departments that work to provide safe, reliable, and convenient transportation. Some departments generate revenue, such as passenger sales, but many more only add costs to the bottom line. The a la carte method allows more departments to operate as profit centers. For the first time, rather than beg for corporate resources, these departments may reinvest revenue to improve services and products. Rather than having a pure focus on reducing costs . . . managers now want to create products that are attractive for consumers to purchase.

Something has quietly occurred in the US airline industry since the fees were added; baggage service has improved considerably. It's true, there are fewer bags, and this has allowed baggage systems to operate more efficiently. But the improvements reach beyond this change. By charging fees, once neglected baggage service departments have become star revenue performers for airlines. Department managers can now justify new technology and equipment. Where before, baggage service only represented a cost, it now provides millions in revenue. Passengers who used to check bags free of charge have become customers who pay a price and rightfully expect better service.

[14] "DOT Moves Forward with Controversial Airline Passenger Protection Rules" document dated 9 November 2011 by Pillsbury Winthrop Shaw Pittman LLP.

US carriers disclose mishandled baggage activity to the US Department of Transportation. IdeaWorks analyzed statistics for a 3-month period prior to the industry-wide implementation of fees of 2008, and for the same 3-month period after the fee environment matured during 2011. The industry more than halved the frequency of lost, damaged, delayed, or pilfered baggage during this period. Airlines are paying more attention to this often forgotten corner of the business. Managers have disclosed to IdeaWorks the baggage service department has a higher profile in the company. Airlines are more likely to invest in the business and top management now demands continuing quality improvements.

Mishandled Baggage – Before and After Bag Fees Mishandled baggage per 1,000 passengers			
Bag fees were largely implemented during 2008	**2007** (Aug./Sep./Oct.)	**2011** (Aug./Sep./Oct.)	**Improvement**
All US Airlines	6.16	3.00	51%
Alaska Airlines	6.99	2.62	63%
Source: Air Travel Consumer Report, USDOT			

No carrier knows this better than Alaska Airlines. The carrier's management team struggled with the concept of charging a fee for the first checked bag as its competitors added similar fees during 2008. Finally the carrier made its move by announcing a first-bag fee on 23 April 2009. Concurrent with announcing a $25.4 million quarterly loss, Alaska Airlines and Horizon Air said it would start charging $15 for the first bag effective 7 July 2009.[15] The carriers added a decidedly innovative twist to the news; Alaska and Horizon would provide a 25-minute delivery guarantee. This moved bag fees from the realm of unbundling to a product with an identity.

Alaska boldly promotes the guarantee at its website, in online newsletters, and at the airport. This advertisement appears on jetways at its Seattle hub.

The carrier said, "Customers whose luggage is not at baggage claim within 25 minutes after their flight parks at the gate will receive 2,500 Alaska Airlines Mileage Plan miles or $25 off a future flight." The results listed in the table demonstrate how the airline has improved the reliability of its baggage service . . . considerably more than the US airline industry as a whole. Southwest Airlines (which maintained its no-fee checked baggage policy) showed improvement during the same 2007 – 2011 period but at a rate that was approximately half of Alaska's.

[15] "Alaska Air Group Reports First Quarter Results" press release dated 23 April 2009.

Alaska and Horizon Airlines had more news to share in June of 2010 when it improved its guarantee by shaving 5 minutes off the delivery time.[16] Now the carriers promised to deliver bags within 20 minutes after arrival. Managers at other airlines often express dismay over the guarantee and assume Alaska operates within a safe bubble of predictable operations and relies upon its own employees to handle bags. Neither assumption is correct. The state of Alaska and the Pacific Northwest of America are notorious for difficult weather conditions. The carrier disclosed in its 2010 annual report that its own employees provide support in the state of Alaska, while ground support throughout the rest of the network is provided by vendors. For example, Menzies Aviation serves the carrier's Seattle hub and 13 additional cities throughout the US and Canada.[17]

Airlines are slowly saying "goodbye" to the era of mystery boxes filled with shelf-stable snacks.

Improvements to quality are obvious in other areas where "fees" have replaced "free." Many travelers will recognize the box of shelf-stable snacks shown to the right. This was one of the solutions introduced by airlines after food disappeared in 2002. The small profit margin on the sale of food can easily be wiped out if an airline guesses incorrectly and boards too much fresh food on a flight. Unlike packages of peanuts and cans of soft drinks, fresh food can't be moved to another flight.

Unsold salads, sandwiches, and hot entrees are often tossed in the dumpster because aircraft don't feature walk-in coolers to store food. Snack boxes filled with non-refrigerated crackers, pretzels, raisins, processed cheese and meat were better for the airline – but not better for passengers. The boxes were a poor solution, especially after airport restaurants started selling take-away food. Airlines watched as growing numbers of passengers enjoyed carry-on picnics. Profit motives encouraged airline management to create food choices that better met consumer tastes for freshness and value.

KLM's "Japanese Delight" is a delicate entrée of sushi followed by tasty chicken with steamed rice and vegetables.

Airlines are trying to become savvy retailers. This will require carriers to deliver products that meet standards established by fast food chains, restaurants and grocers. Otherwise, consumers will simply turn their noses up at the offers and the products won't sell. Software is now used to track purchase behavior by flight to ensure a better match between supply and demand. That's why travelers now see flight attendants carrying hand held devices to process orders and payments. Consumers seek predictability and pre-order systems have been tested or implemented by a growing number of airlines. KLM has introduced the ability for travelers to pre-order upgraded meal entrees on virtually all intercontinental flights from its Amsterdam hub.[18] Five a la carte selections are priced €12 to €15 for passengers who wish to pass on the regular meal.

[16] "Alaska Airlines And Horizon Air Speed Up Baggage Service Guarantee" press release dated 16 June 2010.
[17] "Menzies signed new contract with Alaska Airlines in Seattle" 04 February 2011 at GroundHandling.net.
[18] "A la carte menu in Economy Class" at the KLM.com website reviewed January 2012.

Consumers win when they have choices

Sy Syms (1926-2009) was the founder of the discount men's clothing store that bore his name. He was known among New Yorkers for late night commercials, which proclaimed, **"An educated consumer is our best customer."**[19] The slogan appeared on every store. Manhattan residents sometimes blanched at the quality, but Syms sold big brands for less; consumers walked out of the store knowing they saved money.

There is wisdom behind Sy's slogan that can be applied to the practice of a la carte shopping. First, it requires a retailer to proactively disclose pricing and other product attributes – with no games. Second, it assumes the consumer has sufficient intelligence to weigh these factors to make a purchase decision. Regulators and politicians should be encouraged to force fair disclosure. For example, the regulatory removal of opt-out methods is a good change. However, attempts to coddle consumers by mandating an all-inclusive approach to pricing only makes the marketplace less efficient.

Ryanair's financial success – it has paid dividends of €846 million ($1.072 billion) to shareholders in three years – supports the commercial success of a la carte methods.[20] Airlines can decide for themselves if they wish to adopt the carrier's controversial pricing methods. Europe's consumers have risen to the challenge of saving money and travel within the limits of Ryanair's tight 10 kilogram (22 pound) cabin baggage limit. As disclosed by Ryanair, 70 percent of its passengers travel without checked bags.[21] Frugal travelers keep a second set of clothes at a vacation home or take less clothing and do a load of wash at the hotel. And yes, 30 percent splurge by paying the optional fee and checking a bag.

Allegiant Airlines is a US-based airline that bases its a la carte methods on "conveniences valued by customers". Here is an excerpt of the carrier's a la carte manifesto from the 2011 Annual Report:

> *"Allegiant believes most leisure travelers are concerned primarily with purchasing air travel for the least expensive price. As such, Allegiant has unbundled the air transportation product and created sources of revenue by charging fees for services many U.S. airlines historically bundled in their product offering. Allegiant believes by offering a simple base product at an attractive low fare it can stimulate demand and generate incremental revenue as customers pay additional amounts for conveniences they value."*

Successful companies serve their customers successfully. When a la carte shopping is successfully implemented, it's not an evil method. Quite to the contrary, it's the ultimate compliment to the consumer – it acknowledges their right to choose.

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[19] "For an 'Educated Consumer,' He Discounted Designer Suits" article dated 19 November 2009 in the Wall Street Journal.
[20] Ryanair, Full Year Results presentation, 31 March 2011.
[21] "Ryanair to charge £100 for checking in a bag" article dated 10 December 2011 in the Belfast Telegraph.

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- **Ancillary Revenue Boosts the Bottom Line** (75 minutes)
- **Moving to Merchandising Methods in the Cabin** (90 minutes)
- **Airline and Hotel Fees: Wicked, Good, Misunderstood?** (75 minutes)
- **Allegiant Air: How to Be Better Than Ryanair** (60 minutes)

Frequent Flier and Loyalty Marketing:

- **Loyalty by the Billions** (60 minutes)
- **Solving the Reward Availability Problem** (60 minutes)
- **Worldwide Guide to Reward Availability** (75 minutes)

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